

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name The City of Ferndale	County Wayne
Fiscal Year End 06/30/06	Opinion Date 10/27/06	Date Audit Report Submitted to State December 21, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO

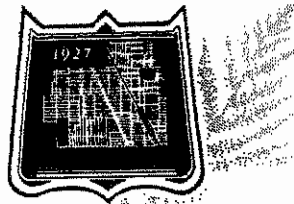
Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) The Rehmann Group		Telephone Number 1-248-952-5000	
Street Address 5750 New King Street, Suite 200		City Troy	State MI
		Zip 48098	
Authorizing CPA Signature Thomas E. Darling, CPA <small>Drafts/signed by Thomas E. Darling, CPA DIT and Thomas E. Darling, CPA, c/o US, c/o Rehmann Group on 10/27/06 10:20:34 AM</small>		Printed Name Thomas E. Darling, CPA	
		License Number A246550	



*"GOOD
NEIGHBORS"*

**CITY OF FERNDALE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2006**

**CITY OF FERNDALE
MICHIGAN**

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

**For the Year Ended
June 30, 2006**

CITY OF FERNDALE, MICHIGAN

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

October 27, 2006

To the Honorable Mayor and City Council
City of Ferndale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan*, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the *City of Ferndale, Michigan's* management. Our responsibility is to express opinions on these financial statements based on our audit.

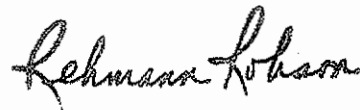
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan*, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General, Major Streets, and Sanitation funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the *City of Ferndale, Michigan's* internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 15 and the Schedule of Funding Progress on Pages 63 and 64 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Ferndale, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script, reading "Lehman Lohman".

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

As management of the *City of Ferndale, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended June 30, 2006.

Financial Highlights

- The total net assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$29,817,513. Of this amount, \$20,736,907 is invested in capital assets, \$2,190,125 is restricted for debt service and other purposes, and \$6,890,481 may be used to meet the government's ongoing obligations to its citizens and creditors.
- The City's combined net assets in Primary Government activities increased \$713,962 as a result of this year's operations. Net assets of our Business-type activities decreased by \$225,201 and net assets of our Governmental activities increased by \$939,163 for the year ended.
- As of the close of the current fiscal year, the City's Governmental funds reported combined fund balances of \$6,762,817 for an increase of \$210,817 in comparison with the prior year. Approximately 77% of this total amount, or \$6,314,284 is available for spending at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, the unreserved and undesignated fund balance for the General Fund was \$2,955,777 or 18% of total General Fund expenditures.
- The City's total bonded debt decreased by \$2,553,903 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, parks and public grounds, community development, and operation of the Municipal Library and Kulick Community Center. The business-type activities of the City include water distribution and sanitary sewer operations and the municipal parking system.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate authority – the Downtown Development Authority – for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

Fund financial statements. A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

statement of revenues, expenditures, and changes in fund balances for the General, Major Streets, Sanitation, and Debt Service funds, each of which are considered to be major funds. Data from the six other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general, special revenue, and debt service funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

2. **Proprietary funds** account for activities that operate similar to a business. The City maintains two different types of proprietary funds: enterprise funds and internal service funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer system, which is considered to be a major fund of the City.
 - a) **Enterprise funds** are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for both its water distribution and sanitary sewer operations, and its municipal parking system.
 - b) **Internal service funds** are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motorized vehicle and general maintenance equipment, and for costs related to workers' compensation, unemployment, and other employment-related costs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.
3. **Fiduciary funds** are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees and to this Management Discussion and Analysis.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Ferndale, assets exceeded liabilities by \$29,817,513 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (70%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Ferndale's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 9,913,891	\$ 9,512,961	\$ 2,889,365	\$ 3,503,894	\$ 12,803,256	\$ 13,016,855
Capital assets, net	22,737,032	24,783,313	33,601,324	33,030,855	56,338,356	57,814,168
Total assets	32,650,923	34,296,274	36,490,689	36,534,749	69,141,612	70,831,023
Current liabilities	4,417,089	5,239,939	1,288,972	1,004,624	5,706,061	6,244,563
Noncurrent liabilities	23,345,117	25,106,781	10,272,921	10,376,128	33,618,038	35,482,909
Total liabilities	27,762,206	30,346,720	11,561,893	11,380,752	39,324,099	41,727,472
Net assets:						
Invested in capital assets,						
net of related debt	(2,103,753)	(2,533,572)	22,840,660	22,192,445	20,736,907	19,658,873
Restricted assets	2,190,125	2,973,205	-	-	2,190,125	2,973,205
Unrestricted	4,802,345	3,509,921	2,088,136	2,961,552	6,890,481	6,471,473
Total net assets	\$ 4,888,717	\$ 3,949,554	\$ 24,928,796	\$ 25,154,997	\$ 29,817,513	\$ 29,103,551

An additional portion of the City's net assets (7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$6,890,481 or 23%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

The City's net assets increased \$713,962 during the current fiscal year. Governmental activities account for an increase of \$939,163, and business-type activities account for a reduction of \$225,201 for the year ended.

City of Ferndale's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenues:						
Charges for services	\$ 5,346,823	\$ 5,077,539	\$ 6,337,370	\$ 5,428,709	\$ 11,684,193	\$ 10,506,248
Operating grants and contributions	1,870,691	1,876,340	92,170	7,474	1,962,861	1,883,814
Capital grants and contributions	99,769	83,048	-	-	99,769	83,048
General revenues:						
Property taxes	14,273,061	13,842,895	-	-	14,273,061	13,842,895
State shared revenue	3,172,293	3,224,475	-	-	3,172,293	3,224,475
Grants and contributions not restricted to specific programs	59,050	11,033	-	-	59,050	11,033
Other	684,766	712,150	29,112	(20,527)	713,878	691,623
Total revenues	25,506,453	24,827,480	6,458,652	5,415,656	31,965,105	30,243,136
Expenses:						
General government	4,174,986	4,392,365	-	-	4,174,986	4,392,365
Public safety	10,739,704	9,957,667	-	-	10,739,704	9,957,667
Public works	3,401,079	3,273,548	-	-	3,401,079	3,273,548
Highways and streets	3,381,049	3,457,593	-	-	3,381,049	3,457,593
Community and economic development	139,664	149,051	-	-	139,664	149,051
Recreation and culture	1,686,207	1,576,836	-	-	1,686,207	1,576,836
Interest on long-term debt	1,044,601	1,207,571	-	-	1,044,601	1,207,571
Water and sewer	-	-	6,385,401	6,269,039	6,385,401	6,269,039
Auto parking	-	-	298,452	405,346	298,452	405,346
Total expenses	24,567,290	24,014,631	6,683,853	6,674,385	31,251,143	30,689,016
Increase (decrease) in net assets	939,163	812,849	(225,201)	(1,258,729)	713,962	(445,880)
Net assets-beginning	3,949,554	3,136,705	25,153,997	26,412,726	29,103,551	29,549,431
Net assets-ending	\$ 4,888,717	\$ 3,949,554	\$ 24,928,796	\$ 25,154,997	\$ 29,817,513	\$ 29,103,551

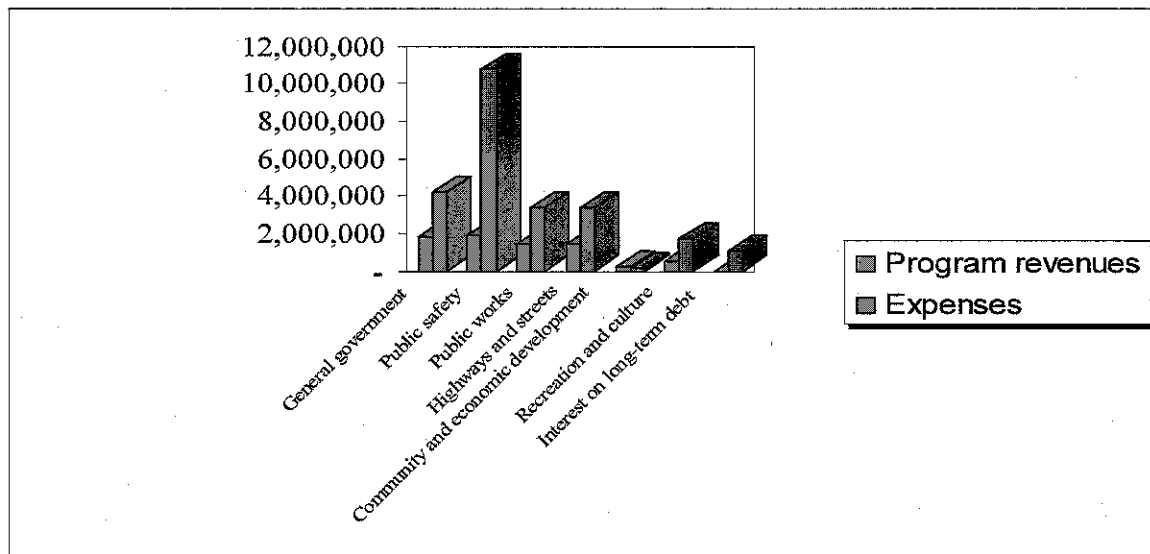
CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Governmental activities increased the City's net assets by \$939,163 for the year. Key elements of this change are as follows:

- An increase of \$269,000 in Charge for Services due to increased recreation and other activity.
- An increase of \$430,000 in Property Tax revenues due to inflationary increased in valuations, new construction, and housing sales and transfers which uncap individual taxable value.
- A reduction of \$52,000 in State collected and locally shared sales tax revenues due to further erosion of the Statutory portion of the amount distributed by the State. The \$87,000 reduction of Statutory revenue was partially offset by a \$35,000 increase in the Constitutional revenues. The reduction in State Shared Revenues over the past five years has exceeded \$1.2 million.

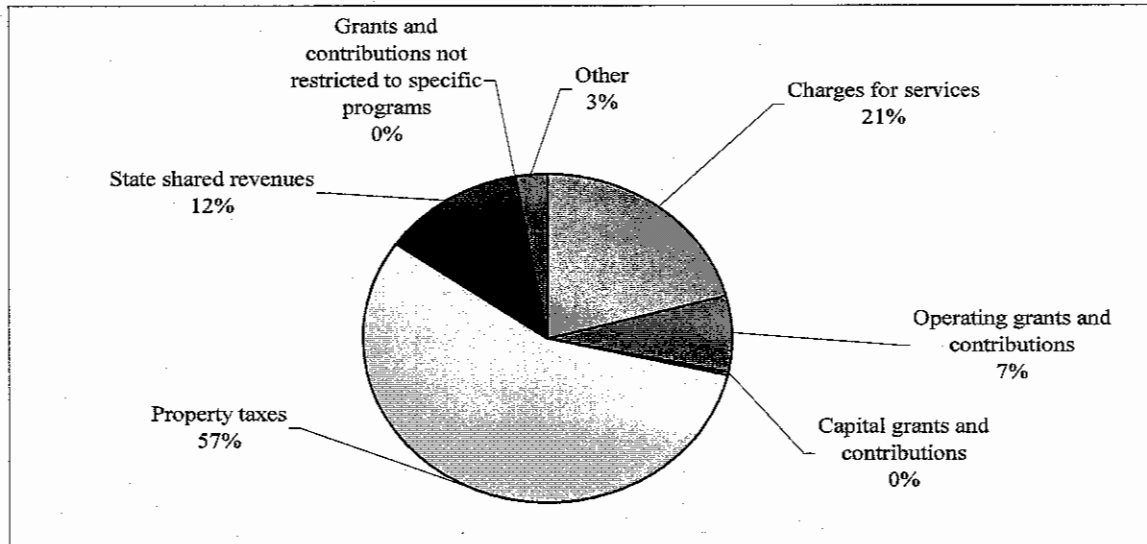
Expenses and Program Revenues – Governmental Activities



CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Revenues by Source – Governmental Activities



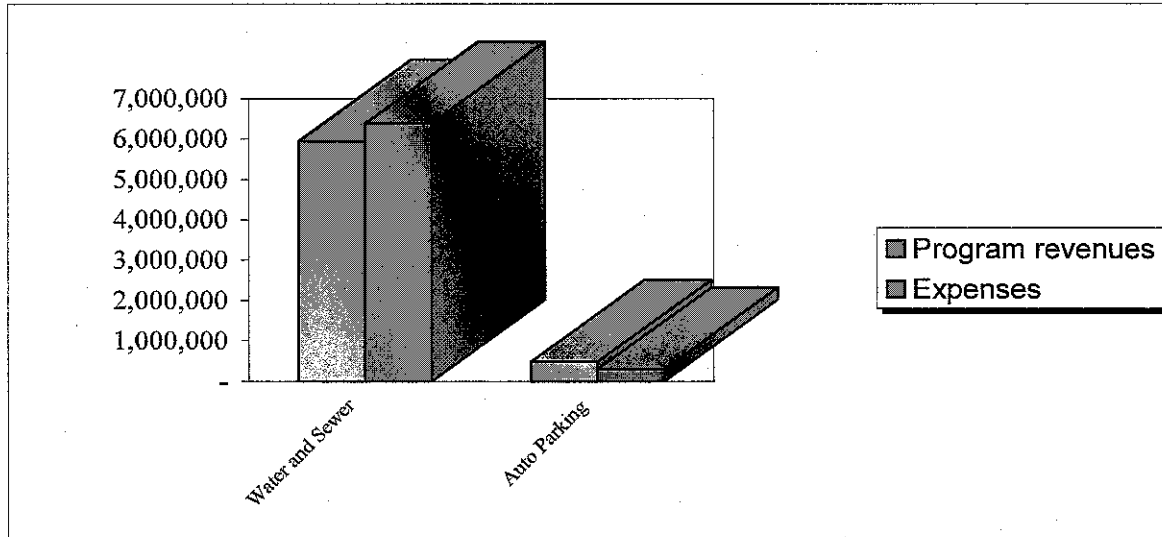
Business-type Activities. Business-type activities decreased the City's net assets by \$225,201, accounting for the City's total increase in net assets. The key element of this decrease is as follows:

- A reduction of \$358,000 in the Water/Sewer Fund despite an 18% increase in water/sewer rates to offset increased repair and maintenance on a system exceeding 70 years old.
 - An increase of \$133,000 in the Auto Parking Fund due mainly to two factors. (1) and increased number of on-street and metered parking spaces and increased enforcement of metered and long-term parking lots.
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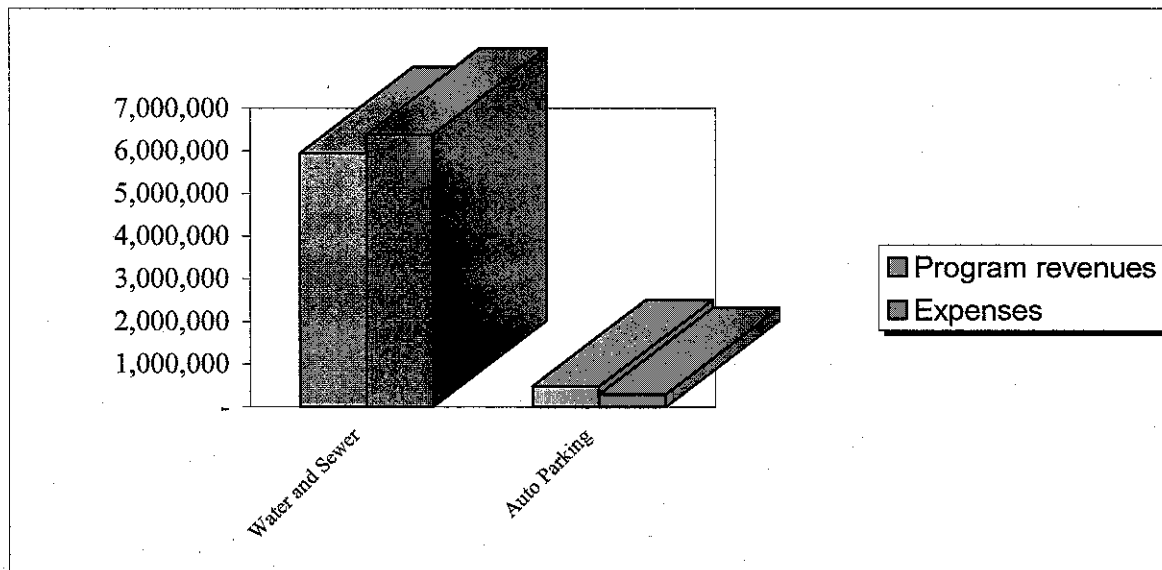
CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Expenses and Program Revenues - Business-Type Activities



Revenues by Source - Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$6,762,817, an increase of \$210,817 in comparison with the prior year. Approximately 77% of this total amount, \$5,191,175 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Another 17%, \$1,123,109 is *unreserved, designated*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved fund balance* of the general fund was \$2,955,777 while total fund balance was \$4,102,401. As a measure of the general fund's liquidity, it may be useful to compare both *unreserved fund balance* and total fund balance to total fund expenditures. *Unreserved fund balance* represents 18% of total general fund expenditures, while total fund balance represents 25% of the same amount.

The fund balance of the City's general fund increased by \$523,606 during the current fiscal year. Notable changes increasing the expected balance include the following:

1. Property taxes increased approximately \$110,000 from mid-year expectations due to inflationary increases in valuations, new construction, and housing sales and transfers which uncap individual taxable values.
2. Interest earnings increased \$212,000 from the prior year due to continued improvement in interest rates along with greater diversification of the City's investments.
3. A decrease of \$116,000 in District Court expenditures from mid-year expectations due to an over-assumption of fringe benefit costs and several temporary full and part time staff vacancies.
4. A decrease of \$51,000 in Cable Television expenditures due to unreported staffing reassignments and an over assumption of repair and maintenance costs.

The major streets fund accounts for activities, maintenance and capital improvements of the City's major streets. *Unreserved and total fund balance* was \$833,819 as of year-end. The fund balance increased by \$57,814 during the year. The increase is mainly attributable to State Shared Revenue and the costs of maintenance and repairs increased interest earnings and a slight decrease in expected expenditures from the mid-year estimates. The City completed its crack-sealing project this year which was begun in 2005. The streets reconstructed under the Infrastructure Bond projects from 1996 through 1998 were crack-sealed in order to extend their useful life beyond the 10 years of expected service.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

The sanitation fund has a fund balance of \$470,291, a decrease of \$100,475 for the year. Operations were relatively stable between FY05 and FY06. The City added a 20 yard trash compactor to the West Breckenridge parking lot to handle the increased restaurant and other business needs in the Central Business District. The cost of the pad and contractor was \$80,000. Also added were two transfer pods, one at the City yard and the other at the Southwest Storage Yard, to handle the increased leaf collection due to the new intergovernmental agreement with the City of Oak Park to collect and store leaves.

The debt service fund has a total fund balance of \$425,018 all of which is reserved for the payment of debt service. The decrease of \$23,399 was approximately the planned use of fund balance.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,407,746 . The decrease in net assets for the fund was \$356,194 partly due to the loss of a major customer during the year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The increase in budgeted revenues of \$745,650 and increase in budgeted expenditures of \$684,514 can be briefly summarized as follows:

Major Revenue items:

- a) State Shared Revenue budget increased \$286,000 from \$2,896,000 to \$3,182,000 based on revised State estimates.
- b) Local reimbursements budget increased \$277,000 from \$503,000 to \$780,000 based on the addition of a fire services agreement with Royal Oak Township.
- c) Charge for Services budget increased \$40,000 from \$1,284,000 to \$1,324,000 based on planned increases to services provided.
- d) Investment earnings budget increased \$92,000 from \$145,000 to \$237,000 based on a planned change in investment strategy.

Major Expenditure items:

- e) General Government budget increased \$93,000, from 2,882,000 to \$2,975,000, mostly due to planned wage and benefit increases in the District Court.
- f) Public Safety budget increased \$508,000, from \$10,615,000 to \$10,107,000, mostly due to planned wage and/or benefit changes based on labor settlements.
- g) Public Works budget increased \$93,000, from \$996,000 to \$1,089,000, mostly due to the planned replacement of trees affected by Emerald Ash Borer disease.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounted to \$56,338,356 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, vehicles, and roads, highways, and other infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was \$1,475,814 or -3% which represents a decrease in governmental activities of \$2,046,282 or -8%, and an increase in business-type activities of \$570,468 or 2%.

Major capital asset events during the current fiscal year included the following:

- The installation of decorative streetscaping and a major art piece at Woodward and Nine Mile Road – commemorating the City's history with an artist's rendition of a policeman directing traffic in a "Crow's Nest" facing towards the main shopping district - \$64,000.
- The reconstruction of Channing Street – the only street not addressed with the proceeds from \$22M in Street improvement bonds - \$85,000.
- Replacement of the Police Department's in-car video recording system - \$51,000.
- Additions to the Municipal Library's book collection - \$41,000.
- Replacement of the District Court's mainframe and related equipment - \$34,000.
- New and replacement video and computer equipment for Cable TV - \$16,000.
- The start of a two-year project to resurface several of the City's parking lots – including both metered lots and the lots adjacent to City parks – costs to date of \$314,000.
- Installation of a water main at Hamata/Pilgrim/Chestnut intersections in order to service a new multi-home development at the former location of Lee O. Clark School - \$54,000.
- Continued work on the George W. Kuhn Drain project, financed by the 12-Town Drains District – Ferndale's portion for 2006 was almost \$1.5 million.
- The replacement of several pieces of Motor Pool equipment and 13 vehicles - \$294,000.

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

City of Ferndale's Capital Assets (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 637,878	\$ 637,878	\$ 454,903	\$ 454,903	\$ 1,092,781	\$ 1,092,781
Construction in progress	-	-	12,367,977	10,871,676	12,367,977	10,871,676
Buildings	3,921,719	4,079,191	86,190	94,652	4,007,909	4,173,843
Equipment	953,029	1,362,100	79,716	123,372	1,032,745	1,485,472
Vehicles	755,564	421,553	208,417	241,054	963,981	662,607
Infrastructure	16,468,842	18,282,591	20,404,121	21,245,199	36,872,963	39,527,790
Total	<u>\$ 22,737,032</u>	<u>\$ 24,783,313</u>	<u>\$ 33,601,324</u>	<u>\$ 33,030,856</u>	<u>\$ 56,338,356</u>	<u>\$ 57,814,169</u>

Additional information regarding the City's capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$35,601,392, backed by the full faith and credit of the government. Its purpose is attributable to both governmental (\$24,840,727) and business-type activities (\$10,760,665) at year end.

City of Ferndale's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Series III and IV GO bonds	\$ 1,600,000	\$ 2,000,000	\$ -	\$ -	\$ 1,600,000	\$ 2,000,000
2004 refunding bonds	13,085,000	15,045,000	-	-	13,085,000	15,045,000
Premium on refunding	307,939	338,733	-	-	307,939	338,733
2005 refunding bonds	9,190,000	9,205,000	-	-	9,190,000	-
Discount on 2005 refunding bonds	(186,364)	(205,000)	-	-	(186,364)	-
Public improvement bonds	844,152	933,152	-	-	844,152	-
GW Kuhn drain project	-	-	10,760,665	10,838,410	10,760,665	10,838,410
	<u>\$ 24,840,727</u>	<u>\$ 27,316,885</u>	<u>\$ 10,760,665</u>	<u>\$ 10,838,410</u>	<u>\$ 35,601,392</u>	<u>\$ 28,222,143</u>

CITY OF FERNDALE, MICHIGAN

Management's Discussion and Analysis

Additional debt of \$397,000, related to the George W. Kuhn drain project was incurred during the fiscal year ended June 30, 2006. Total obligation debt decreased by \$474,000 due to payments on principal by the City and amortization of bond premiums of \$12,100 during the year.

Additional information regarding the City's long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year and will continue to be an ongoing concern as the City moves forward in future budget years.

- The combined impact of Headlee and Prop A – which has cut **in half** Ferndale's ability to collect tax revenues based on the City's authorized millage and the fair market value of its real and personal property.
- The continued uncertainty over the amount the State is willing to continue distributing to municipalities for statutory revenue sharing.
- The continued concern over "Legacy" costs – retiree health care costs in times of double-digit medical inflation. Ferndale's estimated unfunded liability for retiree health care costs as estimated in 2002 were about \$32M, for which approximately \$3.9M has been set aside to defray those costs. A revised actuarial is planned for the winter of 2006-07 based on 2006 costs which is expected to reflect an increase of \$8M to \$12M in unfunded accrued liabilities.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 300 East Nine Mile Road, Ferndale, Michigan 48220.

***BASIC FINANCIAL
STATEMENTS***

CITY OF FERNDALE, MICHIGAN

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	\$ 5,271,853	\$ 995,608	\$ 6,267,461	\$ 255,792
Investments	3,326,327	-	3,326,327	-
Receivables (net)	1,482,140	1,521,127	3,003,267	138,486
Internal balances	(358,886)	358,886	-	-
Due from primary government	-	-	-	40,357
Inventory	164,223	13,744	177,967	-
Prepaid items and other assets	28,234	-	28,234	-
Non-depreciable capital assets	637,878	12,822,880	13,460,758	-
Depreciable capital assets, net	22,099,154	20,778,444	42,877,598	755,998
Total assets	32,650,923	36,490,689	69,141,612	1,190,633
LIABILITIES				
Accounts payable	1,279,815	677,097	1,956,912	416,943
Due to component unit	40,357	-	40,357	-
Accrued liabilities	1,324,759	124,132	1,448,891	3,318
Noncurrent liabilities				
Due within one year	1,772,158	487,743	2,259,901	3,394
Due in more than one year	23,345,117	10,272,921	33,618,038	302
Total liabilities	27,762,206	11,561,893	39,324,099	423,957
NET ASSETS				
Invested in capital assets, net of related debt	(2,103,753)	22,840,660	20,736,907	752,302
Restricted for:				
Public safety	204,390	-	204,390	-
Highways and streets	833,445	-	833,445	-
Public works	440,531	-	440,531	-
Community and economic development	108,337	-	108,337	-
Recreation and culture	178,404	-	178,404	-
Debt service	425,018	-	425,018	-
Unrestricted	4,802,345	2,088,136	6,890,481	14,374
Total net assets	\$ 4,888,717	\$ 24,928,796	\$29,817,513	\$ 766,676

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities					
General government	\$ 4,174,986	\$ 1,760,440	\$ 84,727	\$ -	\$ (2,329,819)
Public safety	10,739,704	1,649,113	271,614	-	(8,818,977)
Public works	3,401,079	1,376,521	20,750	-	(2,003,808)
Highways and streets	3,381,049	62,667	1,249,981	99,769	(1,968,632)
Community and economic development	139,664	16,652	173,227	-	50,215
Recreation and culture	1,686,207	481,430	70,392	-	(1,134,385)
Interest on long-term debt	1,044,601	-	-	-	(1,044,601)
Total governmental activities	24,567,290	5,346,823	1,870,691	99,769	(17,250,007)
Business-type activities					
Water and sewer	6,385,401	5,852,162	92,170	-	(441,069)
Auto parking	298,452	485,208	-	-	186,756
Total business-type activities	6,683,853	6,337,370	92,170	-	(254,313)
Total primary government	31,251,143	11,684,193	1,962,861	99,769	(17,504,320)
Component units					
Downtown Development Authority	591,035	-	233,262	-	(357,773)
Brownfield Redevelopment Authority	110,749	2,000	-	-	(108,749)
	\$ 701,784	\$ 2,000	\$ 233,262	\$ -	\$ (466,522)

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	<u>\$(17,250,007)</u>	<u>\$ (254,313)</u>	<u>\$(17,504,320)</u>	<u>\$(466,522)</u>
General revenues				
Property taxes	14,273,061	-	14,273,061	521,883
State shared revenue	3,172,293	-	3,172,293	-
Grants and contributions not restricted to specific programs	59,050	-	59,050	-
Unrestricted investment earnings	520,927	101,593	622,520	3,733
Gain on sale of capital assets	91,358	-	91,358	-
Transfers - internal activities	<u>72,481</u>	<u>(72,481)</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>18,189,170</u>	<u>29,112</u>	<u>18,218,282</u>	<u>525,616</u>
Change in net assets	939,163	(225,201)	713,962	59,094
Net assets, beginning of year	<u>3,949,554</u>	<u>25,153,997</u>	<u>29,103,551</u>	<u>707,582</u>
Net assets, end of year	<u>\$ 4,888,717</u>	<u>\$ 24,928,796</u>	<u>\$ 29,817,513</u>	<u>\$ 766,676</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
BALANCE SHEET
Governmental Funds
June 30, 2006

ASSETS	General	Major Streets	Sanitation	Debt Service	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$ 1,684,607	\$ 682,426	\$ 596,501	\$ 425,018	\$ 895,031	\$ 4,283,583
Investments	3,326,327	-	-	-	-	3,326,327
Inventory	3,572	-	-	-	-	3,572
Receivables						
Accounts receivable	509,102	-	-	-	40,625	549,727
Taxes-delinquent	133,146	-	19,932	56,719	4,028	213,825
Less: allowance for doubtful accounts	(105,739)	-	(15,841)	(45,197)	(2,302)	(169,079)
Interest and dividends	65,253	-	-	-	-	65,253
Due from other governments	434,467	201,144	-	-	169,894	805,505
Prepaid expenditures	8,234	-	-	-	-	8,234
Total assets	\$ 6,058,969	\$ 883,570	\$ 600,592	\$ 436,540	\$ 1,107,276	\$ 9,086,947
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 901,392	\$ 29,556	\$ 110,776	\$ -	\$ 148,883	\$ 1,190,607
Accrued liabilities	992,090	20,195	15,433	-	25,379	1,053,097
Due to component unit	35,679	-	-	-	-	35,679
Deferred revenue	27,407	-	4,092	11,522	1,726	44,747
Total liabilities	1,956,568	49,751	130,301	11,522	175,988	2,324,130
Fund balances						
Reserved for						
Debt service	-	-	-	425,018	-	425,018
Inventory	3,572	-	-	-	-	3,572
Prepays	8,234	-	-	-	-	8,234
Other purposes	11,709	-	-	-	-	11,709
Unreserved, designated	1,123,109	-	-	-	-	1,123,109
Unreserved, undesignated for						
General fund	2,955,777	-	-	-	-	2,955,777
Special revenue funds	-	833,819	470,291	-	931,288	2,235,398
Total fund balances	4,102,401	833,819	470,291	425,018	931,288	6,762,817
Total liabilities and fund balances	\$ 6,058,969	\$ 883,570	\$ 600,592	\$ 436,540	\$ 1,107,276	\$ 9,086,947

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS

June 30, 2006

Fund balances - total governmental funds	\$ 6,762,817
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	48,911,295
Deduct: accumulated depreciation	(27,365,410)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	44,747
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Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in the internal service funds	1,915,443
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: bonds payable	(24,840,785)
Deduct: compensated absences	(276,490)
Deduct: accrued interest on bonds payable	(262,900)

Net assets of governmental activities	<u>\$ 4,888,717</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Major Streets	Sanitation	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues						
Property taxes	\$ 8,971,863	\$ -	\$ -	\$3,515,404	\$ 547,560	\$ 13,034,827
Licenses and permits	431,244	-	-	-	-	431,244
Intergovernmental	4,184,214	1,064,669	2,270,830	-	630,583	8,150,296
Charges for services	1,176,025	-	-	-	6,612	1,182,637
Fines and forfeitures	1,352,903	-	-	-	109,691	1,462,594
Investment earnings	390,212	27,803	16,262	16,615	39,642	490,534
Other	520,767	-	1,730	-	44,396	566,893
Total revenues	17,027,228	1,092,472	2,288,822	3,532,019	1,378,484	25,319,025
Expenditures						
Current						
General government	2,803,077	-	-	-	71,179	2,874,256
Public safety	10,627,423	-	-	-	9,291	10,636,714
Public works	887,678	-	2,254,703	-	-	3,142,381
Highways and streets	-	745,654	-	-	685,932	1,431,586
Community and economic development	-	-	-	-	62,345	62,345
Recreation and culture	977,352	-	-	-	533,092	1,510,444
Other functions	1,246,271	-	-	9,175	-	1,255,446
Debt service						
Principal	-	-	-	2,375,000	89,000	2,464,000
Interest and fees	1,301	-	-	1,171,243	41,992	1,214,536
Capital Outlay	111,372	64,004	114,594	-	382,356	672,326
Total expenditures	16,654,474	809,658	2,369,297	3,555,418	1,875,187	25,264,034
Revenues over (under) expenditures	372,754	282,814	(80,475)	(23,399)	(496,703)	54,991
Other financing sources (uses)						
Transfers in	258,432	-	-	-	415,000	673,432
Transfers out	(190,000)	(225,000)	(20,000)	-	(165,951)	(600,951)
Proceeds from sale of capital assets	82,420	-	-	-	925	83,345
Total other financing sources (uses)	150,852	(225,000)	(20,000)	-	249,974	155,826
Net change in fund balances	523,606	57,814	(100,475)	(23,399)	(246,729)	210,817
Fund balances, beginning of year	3,578,795	776,005	570,766	448,417	1,178,017	6,552,000
Fund balances, end of year	\$ 4,102,401	\$ 833,819	\$ 470,291	\$ 425,018	\$ 931,288	\$ 6,762,817

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$ 210,817
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	757,720
Deduct: depreciation expense	(2,709,444)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following

Deduct: net difference in deferred revenue	(6,804)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Add: principal payments on long-term liabilities and on refunding bonds	2,464,000
Add: net change in amortization of bond premiums and accrued interest	168,634

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add: net income from governmental activities in the internal service funds	64,676
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Less: increase in the accrual for compensated absences	(10,436)
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Change in net assets of governmental activities	<u>\$ 939,163</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Revenues				
Property taxes	\$ 8,820,928	\$ 8,862,159	\$ 8,971,863	\$ 109,704
Licenses and permits	426,850	418,450	431,244	12,794
Intergovernmental				
Federal grants	111,465	68,794	123,976	55,182
State grants	61,324	106,562	102,847	(3,715)
State shared revenue	2,895,877	3,181,700	3,172,293	(9,407)
Local reimbursements	502,809	779,974	785,098	5,124
Charges for services	1,284,381	1,324,166	1,176,025	(148,141)
Fines and forfeitures	1,425,200	1,437,435	1,352,903	(84,532)
Investment earnings	145,000	236,600	390,212	153,612
Other	443,319	446,963	520,767	73,804
Total revenues	16,117,153	16,862,803	17,027,228	164,425
Expenditures				
General government				
Council	21,000	29,592	31,920	2,328
District court	1,217,253	1,297,053	1,181,128	(115,925)
Manager	302,486	304,486	301,747	(2,739)
Finance	272,874	272,874	280,291	7,417
Clerk	250,493	262,493	255,269	(7,224)
Assessor/Treasurer	315,353	315,353	328,739	13,386
Elections	35,300	43,800	49,289	5,489
Attorney	355,000	345,000	321,550	(23,450)
Cable television	112,357	104,357	53,144	(51,213)
Total general government	2,882,116	2,975,008	2,803,077	(171,931)
Public safety				
Police	5,923,439	6,323,193	6,272,578	(50,615)
Fire	3,450,066	3,564,833	3,610,279	45,446
Inspection	644,584	638,406	657,478	19,072
Animal control and shelter	89,196	89,196	87,088	(2,108)
Total public safety	\$ 10,107,285	\$ 10,615,628	\$ 10,627,423	\$ 11,795

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL

GENERAL FUND

Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under)
	Original	Final	Actual	Final Budget
Public works				
Department of public works	\$ 520,582	\$ 595,582	\$ 669,697	\$ 74,115
Refuse and weed control	17,967	36,467	23,892	(12,575)
Sidewalk program	457,000	457,000	194,089	(262,911)
Total public works	995,549	1,089,049	887,678	(201,371)
Recreation and culture:				
Recreation department	217,396	197,396	195,481	(1,915)
Dream cruise car show	104,320	95,173	96,765	1,592
Kulick Community Center	641,141	652,104	635,742	(16,362)
Martin Road Youth Center	49,191	42,411	49,364	6,953
Total recreation and culture	1,012,048	987,084	977,352	(9,732)
Other functions				
Liability insurance	539,000	539,000	520,712	(18,288)
Utilities	530,000	500,000	446,369	(53,631)
Other	249,594	269,800	279,190	9,390
Total other functions	1,318,594	1,308,800	1,246,271	(62,529)
Debt service				
Interest and fees	-	-	1,301	1,301
Capital Outlay	70,300	94,837	111,372	16,535
Total expenditures	16,385,892	17,070,406	16,654,474	(417,233)
Revenues over (under) expenditures	(268,739)	(207,603)	372,754	581,658
Other financing sources (uses)				
Transfers in	233,739	238,539	258,432	(19,893)
Transfers out	(190,000)	(190,000)	(190,000)	-
Proceeds from sale of capital asset	225,000	46,200	82,420	(36,220)
Total other financing (uses)	268,739	94,739	150,852	(56,113)
Net change in fund balances	-	(112,864)	523,606	636,470
Fund balance, beginning of year	3,578,795	3,578,795	3,578,795	-
Fund balance, end of year	\$ 3,578,795	\$ 3,465,931	\$ 4,102,401	\$ 636,470

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

MAJOR STREETS

Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual
	Original	Final		Over (Under) Final Budget
Revenues				
Federal grants	\$ -	\$ -	\$ 42,792	\$ 42,792
State shared revenue	1,109,446	1,035,240	1,021,877	(13,363)
Investment earnings	6,200	6,200	27,803	21,603
Total revenues	1,115,646	1,041,440	1,092,472	51,032
Expenditures				
Construction	31,000	31,000	64,004	33,004
Routine maintenance	756,762	747,241	648,376	(98,865)
Winter maintenance	42,400	42,400	37,058	(5,342)
Traffic service	700	12,700	60,220	47,520
Debt service:				
Principal	12,000	-	-	-
Total expenditures	842,862	833,341	809,658	(23,683)
Revenues over (under) expenditures	272,784	208,099	282,814	74,715
Other financing sources (uses)				
Transfers out	(225,000)	(225,000)	(225,000)	-
Net change in fund balances	47,784	(16,901)	57,814	74,715
Fund balance, beginning of year	776,005	776,005	776,005	-
Fund balance, end of year	\$ 823,789	\$ 759,104	\$ 833,819	\$ 74,715

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

SANITATION FUND

Year Ended June 30, 2006

	Budgeted Amounts			Actual Over (Under) Final Budget
	Original	Final	Actual	
Revenues				
Property taxes	\$ 1,250,481	\$ 1,244,392	\$ 1,245,038	\$ 646
Charges for services	1,002,033	1,023,475	1,025,792	2,317
Investment earnings	5,600	5,600	16,262	10,662
Other	1,500	1,500	1,730	230
Total revenues	2,259,614	2,274,967	2,288,822	13,855
Expenditures				
Operating	1,956,805	1,956,805	1,975,681	18,876
Personal	274,549	275,807	279,022	3,215
Capital outlay	17,500	92,855	114,594	21,739
Total expenditures	2,248,854	2,325,467	2,369,297	43,830
Revenues over (under) expenditures	10,760	(50,500)	(80,475)	(29,975)
Other financing sources (uses)				
Transfers out	(20,000)	(20,000)	(20,000)	-
Net change in fund balances	(9,240)	(70,500)	(100,475)	(29,975)
Fund balance, beginning of year	570,766	570,766	570,766	-
Fund balance, end of year	\$ 561,526	\$ 500,266	\$ 470,291	\$ (29,975)

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Major Fund</u>	<u>Non-Major Fund</u>		
	<u>Water/ Sewer</u>	<u>Auto Parking</u>	<u>Total</u>	<u>Internal Service Funds</u>
Assets				
Current assets				
Cash and cash equivalents	\$ 557,179	\$ 438,429	\$ 995,608	\$ 988,270
Accounts receivable	1,299,864	9,114	1,308,978	16,909
Intergovernmental receivable	212,149	-	212,149	-
Inventories	13,744	-	13,744	160,651
Prepaid expenses	-	-	-	20,000
Total current assets	2,082,936	447,543	2,530,479	1,185,830
Noncurrent assets				
Capital assets	45,365,429	867,976	46,233,405	4,869,552
Less accumulated depreciation	(12,632,081)	-	(12,632,081)	(3,678,405)
Total noncurrent assets	32,733,348	867,976	33,601,324	1,191,147
Total assets	34,816,284	1,315,519	36,131,803	2,376,977
Liabilities				
Current liabilities				
Accounts payable	556,734	120,363	677,097	89,208
Accrued liabilities	102,075	5,676	107,751	8,762
Customer deposits	16,381	-	16,381	-
Current portion of long-term debt	487,743	-	487,743	-
Total current liabilities	1,162,933	126,039	1,288,972	97,970
Noncurrent liabilities				
Long term debt	10,272,921	-	10,272,921	-
Total liabilities	11,435,854	126,039	11,561,893	97,970
Net assets				
Investment in capital assets, net of related debt	21,972,684	867,976	22,840,660	1,191,147
Unrestricted	1,407,746	321,504	1,729,250	1,087,860
Total net assets	\$ 23,380,430	\$ 1,189,480	24,569,910	\$ 2,279,007
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			358,886	
Net assets of business type activities			\$ 24,928,796	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Non-Major Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
Operating revenues				
Charges for services	\$ 5,386,101	\$ -	\$ 5,386,101	\$ 1,274,794
Parking meter receipts	-	483,209	483,209	-
Water penalties	168,134	-	168,134	-
Water meter repairs	259,621	-	259,621	-
Miscellaneous income	45,780	1,999	47,779	10,231
Total operating revenues	5,859,636	485,208	6,344,844	1,285,025
Operating expenses				
Personal services	1,065,568	104,964	1,170,532	185,876
General and administrative	80,326	28,129	108,455	636,924
Utilities	22,949	19,780	42,729	-
Rental expense	169,677	32,985	202,662	-
Contractual services	89,314	3,950	93,264	-
Water and sewer expense	2,891,940	-	2,891,940	-
Maintenance expense	496,183	57,065	553,248	-
Depreciation	1,247,879	52,015	1,299,894	388,496
Medical and benefit payments	-	-	-	49,660
Total operating expenses	6,063,836	298,888	6,362,724	1,260,956
Operating income (loss)	(204,200)	186,320	(17,880)	24,069
Non-operating revenues (expenses)				
Interest income	81,985	19,608	101,593	30,393
Interest expense	(318,675)	-	(318,675)	-
Gain on sale of capital assets	-	-	-	8,013
Total non-operating revenues (expenses)	(236,690)	19,608	(217,082)	38,406
Income before contributions and transfers	(440,890)	205,928	(234,962)	62,475
Capital contributions	84,696	-	84,696	-
Transfer out	-	(72,481)	(72,481)	-
Change in net assets	(356,194)	133,447	(222,747)	62,475
Net assets, beginning of year	23,736,624	1,056,033		2,216,532
Net assets, end of year	\$ 23,380,430	\$ 1,189,480		\$ 2,279,007
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(2,454)	
Change in net assets of business type activities			<u>\$ (225,201)</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Non-Major Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
Cash flows from operating activities				
Cash received from customers and others	\$ 6,952,397	\$ 485,175	\$ 7,437,572	\$ -
Cash received from interfund services	-	-	-	1,281,385
Cash payments to employees	(1,061,424)	(101,486)	(1,162,910)	(181,365)
Cash payments to suppliers for goods and services	(3,528,125)	(4,450)	(3,532,575)	(860,435)
Cash payments for interfund services	(80,326)	(28,129)	(108,455)	-
Net cash provided by operating activities	2,282,522	351,110	2,633,632	239,585
Cash flows from investing activities				
Investment income	81,985	19,609	101,594	30,393
Cash flows from capital and related financing activities				
Purchase of capital assets	(1,556,262)	(314,100)	(1,870,362)	(293,936)
Bond/note principal payments	(474,763)	-	(474,763)	-
Bond/note interest payments	(318,675)	-	(318,675)	-
Proceeds from sale of capital assets	-	-	-	8,013
Proceeds from debt issuance	397,018	-	397,018	-
Capital contribution	84,693	-	84,693	-
Net cash provided by (used in) capital and related financing activities	(1,867,989)	(314,100)	(2,182,089)	(285,923)
Cash flows from non-capital financing activities				
Transfers	-	(72,481)	(72,481)	-
Net increase (decrease) in cash and cash equivalents	496,518	(15,862)	480,656	(15,945)
Cash and cash equivalents, beginning of year	60,661	454,291	514,952	1,004,215
Cash and cash equivalents, end of year	\$ 557,179	\$ 438,429	\$ 995,608	\$ 988,270

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds			Governmental Activities
	Major Fund	Non-Major Fund		
	Water/ Sewer	Auto Parking	Total	Internal Service Funds
Reconciliation of operating income (loss)				
to net cash provided by operating activities				
Operating income (loss)	\$ (204,200)	\$ 186,320	\$ (17,880)	\$ 24,069
Adjustments to reconcile operating income (loss)				
to net cash provided by operating activities				
Depreciation	1,247,879	52,015	1,299,894	388,496
Changes in assets and liabilities				
Accounts receivable - customers	138,765	(33)	138,732	(3,642)
Due from other governments	959,749	-	959,749	-
Inventories	(5,753)	-	(5,753)	(29,830)
Accounts payable	126,212	109,330	235,542	(144,021)
Accrued liabilities	4,144	3,478	7,622	4,513
Deposits payable	15,726	-	15,726	-
Net cash provided by operating activities	\$ 2,282,522	\$ 351,110	\$ 2,633,632	\$ 239,585

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

ASSETS	Pension and Other Employee Benefit Trusts	Agency
	<u>Trusts</u>	<u>Agency</u>
Cash and cash equivalents	\$ 4,764,910	\$ 245,810
Accrued interest receivable	274,272	-
Investments		
U.S. Government obligations	9,015,494	-
Common stock	27,577,849	21,019
Corporate bonds	20,835,013	8,848
Total investments	<u>57,428,356</u>	<u>29,867</u>
Total assets	<u>62,467,538</u>	<u>\$ 275,677</u>
LIABILITIES		
Liabilities		
Accounts payable	18,350	\$ 481
Other liabilities	<u>-</u>	<u>275,196</u>
Total liabilities	<u>18,350</u>	<u>\$ 275,677</u>
NET ASSETS		
Held in trust for pension benefits and other purposes	<u>\$ 62,449,188</u>	

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
Year Ended June 30, 2006

	Pension and Other Employee Benefit Trusts
Additions	
Contributions	
Employer contributions	\$ 534,831
Plan member contributions	144,698
Total contributions	679,529
Investment income	
Net appreciation in fair value	2,300,764
Interest	1,214,872
Dividends	1,208,470
Total investment income	4,724,106
Less investment expense	(263,873)
Net investment income	4,460,233
Total additions	5,139,762
Deductions	
Benefits	3,367,896
Administrative expenses	43,390
Total deductions	3,411,286
Net increase (decrease) in plan net assets	1,728,476
Net assets held in trust for pension benefits - beginning of year	60,720,712
Net assets held in trust for pension benefits and other purposes - end of year	\$ 62,449,188

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2006

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Assets			
Cash	\$ -	\$ 255,792	\$ 255,792
Receivables, net	12,585	125,901	138,486
Due from primary government	40,357	-	40,357
Capital assets			
Depreciable, net	755,998	-	755,998
Total assets	<u>808,940</u>	<u>381,693</u>	<u>1,190,633</u>
Liabilities			
Accounts payable	53,435	363,508	416,943
Accrued liabilities	3,318	-	3,318
Noncurrent liabilities			
Due within one year	3,394	-	3,394
Due in more than one year	302	-	302
Total liabilities	<u>60,449</u>	<u>363,508</u>	<u>423,957</u>
Net assets			
Invested in capital assets, net of related debt	752,302	-	752,302
Unrestricted (Deficit)	(3,811)	18,185	14,374
Total net assets	<u>\$ 748,491</u>	<u>\$ 18,185</u>	<u>\$ 766,676</u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

COMBINING STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2006

	<u>Downtown Development Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
Expenses			
Community and economic development	\$ 591,035	\$ 110,749	\$701,784
Program revenues			
Charges for services	-	-	-
Net program expense	<u>591,035</u>	<u>110,749</u>	<u>701,784</u>
Program revenues			
Charges for services	-	2,000	2,000
Capital grants and contributions	233,262	-	233,262
Total program revenues	<u>233,262</u>	<u>2,000</u>	<u>235,262</u>
General revenues			
Property taxes	402,108	119,775	521,883
Unrestricted investment earnings	-	3,733	3,733
Total general revenues	<u>402,108</u>	<u>123,508</u>	<u>525,616</u>
Change in net assets	44,335	14,759	59,094
Net assets, beginning of year	<u>704,156</u>	<u>3,426</u>	<u>707,582</u>
Net assets, end of year	<u><u>\$ 748,491</u></u>	<u><u>\$ 18,185</u></u>	<u><u>\$766,676</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The accompanying financial statements present the activities of the City of Ferndale, Michigan (the "City" or "government") and its component units, which are legally separate organizations for which the City is financially accountable. The component units each have a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>	<u>Separate Financial Statements Available</u>
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Council appoints and may remove DDA board and approves DDA budget	Not prepared
Brownfield Redevelopment Authority; provide assistance for the redevelopment of abandoned, idled, or under-utilized industrial or commercial properties which are complicated by real or perceived environmental contamination	City Council appoints the governing body and approves the budget.	Not prepared

B. Basis of Presentation

Government-wide Financial Statements. The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary and fiduciary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

General fund. This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major streets fund. This fund accounts for activities, maintenance and capital improvements of the City's major streets.

Sanitation fund. This fund accounts for activities of the City's rubbish collection and disposition.

Debt service fund. This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The City reports the following major enterprise fund:

Water and sewer fund. This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

Additionally, the City reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Internal service funds. These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes vehicles and equipment maintenance and workers' compensation self-insurance.

Pension trust funds. These funds account for the activities of the Employees Retirement System as well as the Policemen and Firemen Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

Agency funds. These funds account for assets held for other governments in an agency capacity.

C. Measurement Focus/Basis of Accounting

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds and internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payment-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Assets, Liabilities and Equity

Deposits and Investments

The City maintains an investment pool for all City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "cash and cash equivalents". The cash resources of the Employees Retirement System as well as the Policemen and Firemen Retirement System are invested separately.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on pension trust fund investments due to changes in fair value are recognized each year.

Receivables and Payables

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

All outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

Inventories, Prepaid Items and Other Assets

All inventories are valued at cost using the first-in/first-out method. Generally, inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	5 - 25
Buildings and building improvements	5 - 25
Public domain infrastructure	15 - 25
Water and wastewater system infrastructure	10 - 40
Vehicles	2 - 10
Office equipment	5 - 10
Machinery and equipment	5 - 10

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned amounts and all unused leave hours are accrued in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

year end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the functional level for the general fund and the fund level for special revenue funds.

The City Council requires the City Manager to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in June. The City Manager is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2006, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
Public safety	\$ 10,615,628	\$10,627,423	\$ 11,795
Special Revenue:			
Sanitation	2,325,467	2,369,297	43,830
Local streets	596,111	685,932	89,821
Community Development			
Block Grant	69,739	81,951	12,212

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

3. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits, Investments and Securities Lending

Summary of Deposit and Investment Balances. Following is a reconciliation of deposit and investment balances as of June 30, 2006:

<u>Deposits and Investments</u>	<u>Deposits</u>	<u>Investments</u>	<u>Other</u>	<u>Total</u>
Statement of Net Assets				
Cash and Cash Equivalents	\$ 1,212,503	\$ 5,049,308	\$ 5,650	\$ 6,267,461
Investments	-	3,326,327	-	3,326,327
Statement of Fiduciary Net Assets				
Cash and Cash Equivalents	947,011	4,063,509	200	5,010,720
Investments	-	57,458,223	-	57,458,223
Component Units				
Cash and Cash Equivalents	-	255,792	-	255,792
	<u>\$2,159,514</u>	<u>\$70,153,159</u>	<u>\$ 5,850</u>	<u>\$72,318,523</u>

Statutory Authority

The City is authorized by statute to invest surplus funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- Bankers acceptances of United States banks.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

Deposits and Investments

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2006 the City had the following investments:

Type of investment	Ratings							Total
	AAA	AA	A	BBB	BB	B	NR	
US Agencies								
1-5yrs	\$ 9,472,923	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,472,923
6-10yrs	1,187,482	-	-	-	-	-	-	1,187,482
11-15yrs	1,551,664	-	-	-	-	-	-	1,551,664
Over 15yrs	570,073	-	-	-	-	-	-	570,073
Governmental and Corporate bonds								
<1	35,136	24,892	104,811	35,232	-	-	-	200,071
1-5yrs	1,326,858	633,742	1,527,881	2,391,978	145,059	215,663	-	6,241,181
6-10yrs	479,266	-	1,099,522	2,051,417	278,463	215,595	-	4,124,263
11-15yrs	29,448	-	-	-	-	-	-	29,448
Over 15yrs	784,235	-	-	-	-	-	-	784,235
Mutual Funds	-	-	-	-	-	-	3,930,916	3,930,916
Stock	-	-	-	-	-	-	36,593,344	36,593,344
Investment Pool	-	-	-	-	-	-	5,467,559	5,467,559
Total	\$ 15,437,085	\$ 658,634	\$ 2,732,214	\$ 4,478,627	\$ 423,522	\$ 431,258	\$ 45,991,819	\$ 70,153,159

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investment maturities for the city's investments are included in the investment schedule above.

Credit Risk. State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the City's investments policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2006, the City's investments in corporate bonds and corporate asset-backed securities were within these guidelines.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$1,084,879 of the City's bank balance of \$2,460,432 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered, and held by a counterparty in the City's name or are uncategorized as to credit risk.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The City has two investments which exceed 5% of the City's total investments. One is held with *Loomis Sayles FDS Small Cap*, which accounts for approximately 13.34% of the City's total investments of \$70,153,159. The other investment is held in an investment pool with Comerica Bank. All investments held at year-end are reported above.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

B. Receivables

Receivables in the governmental activities are 54 percent due from other governments, 38 percent accounts receivables, 3 percent taxes and special assessments and 5 percent accrued interest. Business-type activities receivables are 86 percent due from customers, and 14 percent due from other governments.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Personal property taxes not yet received (general, sanitation and debt service funds	<u>\$ 44,747</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

C. Capital Assets

Capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities					
Capital assets, not being depreciated -					
Land	\$ 637,878	\$ -	\$ -	\$ -	\$ 637,878
Capital assets, being depreciated					
Buildings	6,706,545	148,468	(53,129)	(73,631)	6,728,253
Equipment	4,920,293	247,660	(165,107)	(1,257,484)	3,745,362
Vehicles	3,249,130	259,996	(477,476)	1,331,115	4,362,765
Infrastructure	37,911,057	395,532	-	-	38,306,589
Total capital assets being depreciated for	<u>52,787,025</u>	<u>1,051,656</u>	<u>(695,712)</u>	<u>-</u>	<u>53,142,969</u>
Less accumulated depreciation for					
Buildings	(2,627,353)	(305,939)	126,757	-	(2,806,535)
Equipment	(3,558,193)	(236,385)	179,271	822,974	(2,792,333)
Vehicles	(2,827,577)	(346,334)	389,684	(822,974)	(3,607,201)
Infrastructure	(19,628,464)	(2,209,282)	-	-	(21,837,746)
Total accumulated depreciation	<u>(28,641,587)</u>	<u>(3,097,940)</u>	<u>695,712</u>	<u>-</u>	<u>(31,043,815)</u>
Total capital assets being depreciated, net	<u>24,145,438</u>	<u>(2,046,284)</u>	<u>-</u>	<u>-</u>	<u>22,099,154</u>
Governmental activities capital assets, net	<u><u>\$ 24,783,316</u></u>	<u><u>\$ (2,046,284)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 22,737,032</u></u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Business-type activities					
Capital assets, not being depreciated -					
Land	\$ 454,903	\$ -	\$ -	\$ -	\$ 454,903
Construction in progress	10,871,676	1,496,301	-	-	12,367,977
Total capital assets not being depreciated	11,326,579	1,496,301	-	-	12,822,880
Capital assets, being depreciated:					
Buildings	1,142,874	-	(57,784)	-	1,085,090
Equipment	976,344	3,854	-	(3,000)	977,198
Vehicles	391,627	-	-	3,000	394,627
Infrastructure	31,098,866	370,208	(78,937)	-	31,390,137
Total capital assets being depreciated	33,609,711	374,062	(136,721)	-	33,847,052
Less accumulated depreciation for					
Buildings	(1,048,222)	(8,462)	57,784	-	(998,900)
Equipment	(852,972)	(45,110)	-	600	(897,482)
Vehicles	(150,573)	(35,037)	-	(600)	(186,210)
Infrastructure	(9,853,668)	(1,211,285)	78,937	-	(10,986,016)
Total accumulated depreciation	(11,905,435)	(1,299,894)	136,721	-	(13,068,608)
Total capital assets being depreciated, net	21,704,276	(925,832)	-	-	20,778,444
Business-type activities capital assets, net	<u>\$ 33,030,855</u>	<u>\$ 570,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,601,324</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities	
General government	\$ 130,551
Public safety	99,279
Public works	263,639
Highways and streets	2,035,826
Community and economic development	6,385
Recreation and culture	173,764
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>388,496</u>
Total depreciation expense - governmental activities	\$3,097,940
Business-type activities	
Water and sewer	\$1,247,879
Auto parking	<u>52,015</u>
	<u>\$1,299,894</u>

The City has an active construction project as of June 30, 2006. The City is a participating community in the George W. Kuhn drain project along with thirteen other local municipalities. The total cost of the project is currently estimated at approximately \$134,288,743 with the City's share of total projects costs at \$13,120,010.

As of June 30, 2006 the City's financial activity as it relates to this project is as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
George W. Kuhn Drain	\$ 12,367,979	\$ 752,031

The project is being financed through the sale of drain bonds through the Oakland County Drain Commission and draw downs from the State of Michigan revolving fund. Future commitments related to construction in progress cannot readily be determined at this time due to the project management being conducted at Oakland County, Michigan.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Discretely presented component units

Activity for the Downtown Development Authority for the year ended June 20, 2006, was as follows:

	<u>Beginning</u> <u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>
Capital assets being depreciated				
being depreciated				
Equipment	\$ 65,374	\$ 2,641	\$ -	\$ 68,015
Vehicles	37,103	-	-	37,103
Infrastructure	1,194,356	196,433	-	1,390,789
Total capital assets being depreciated	1,296,833	199,074	-	1,495,907
Less accumulated depreciation for				
Equipment	(47,415)	(1,467)		(48,882)
Vehicles	(13,922)	(3,710)	-	(17,632)
Infrastructure	(573,852)	(99,543)	-	(673,395)
Total accumulated depreciation	(635,189)	(104,720)	-	(739,909)
Component unit activity capital assets, net	<u>\$ 661,644</u>	<u>\$ 94,354</u>	<u>\$ -</u>	<u>\$ 755,998</u>

D. Interfund Receivables, Payables and Transfers

At June 30, 2006, certain amounts are reported as internal balances in the statement of net assets relative to the elimination of the Internal Service Fund. There were no other interfund balances reported.

For the year then ended, interfund transfers consisted of the following:

<u>Transfer Out</u>	<u>Transfer In</u>		
	<u>General</u>	<u>Non-major Governmental</u>	<u>Total</u>
General fund	\$ -	\$ 190,000	\$ 190,000
Major streets fund	-	225,000	225,000
Non-major governmental funds	165,951	-	165,951
Sanitation	20,000	-	20,000
Auto parking	72,481	-	72,481
	<u>\$ 258,432</u>	<u>\$ 415,000</u>	<u>\$ 673,432</u>

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities and business type activities. The original amount of general obligation bonds issued in prior years for the items listed below for the primary government were \$43,624,457 to finance the repair and/or reconstruction of water, sewer and street infrastructure and \$933,152 to finance park improvements.

During the current fiscal year, the City made debt repayments against its General Obligation Bonds totaling \$2,464,000. No new debt was issued in the current fiscal year.

George W. Kuhn project bonds and revolving fund obligations The City is a participating community in the George W. Kuhn drain project. The project is administered by the Oakland County Drain Commission, and financed through the sale of drain bonds, draw downs from the State of Michigan revolving fund, Federal and State of Michigan grants and contributions from Oakland County, Michigan. The City along with thirteen other local community's are obligated for the payment of principal and interest of the outstanding debt. It is currently anticipated that the City's total obligation at the end of construction will be approximately \$13,120,010 or 9.77% of the projects total cost of \$134,288,743. Due to the current construction of the project, the sale of bonds and draw downs from the State of Michigan revolving fund are being incurred on an as needed basis and thus an accurate schedule of principal and interest payments cannot be determined at this time. Accordingly, it is not included in the following schedule of annual debt service requirements.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Governmental activities		
Series III and IV general obligation bonds	5.0% - 6.6%	\$ 1,600,000
2004 refunding bonds	2.0% - 5.0%	13,085,000
2005 refunding bonds	2.5% - 4.0%	9,190,000

CITY OF FERNDALE, MICHIGAN

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Public improvement general obligation bonds	4.3% - 4.4%	<u>844,152</u>
		<u>\$ 24,719,152</u>
Business-type activities		
George W. Kuhn drain project	2.0% - 5.0%	<u>\$ 10,760,665</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest and Premium</u>
2007	\$ 1,760,000	\$ 1,566,332
2008	2,060,000	1,504,420
2009	2,265,000	943,895
2010	2,480,000	847,220
2011	2,470,000	1,416,450
2012 - 2016	<u>13,684,152</u>	<u>1,249,815</u>
	<u>\$ 24,719,152</u>	<u>\$ 7,528,132</u>

Advance and Current Refundings

The City has issued refunding bonds in previous years to purchase U.S. Government securities that were placed in irrevocable trust for the purpose of generating resources for all future debt service payments on \$25,000,000 of refunded debt. As a result, the refunded bonds are considered to be defeased. On June 30, 2006, total defeased debt of \$24,250,000 for the City remained outstanding.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Changes in Long-Term Debt. Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u>	<u>Due Within One Year</u>
Primary Government					
Governmental activities					
Series III and IV general obligation	\$ 2,000,000	\$ -	\$ (400,000)	\$ 1,600,000	\$ 800,000
Public improvement general obligation	933,152	-	(89,000)	844,152	95,000
2004 refunding bonds	15,045,000	-	(1,960,000)	13,085,000	820,000
2005 refunding bonds	9,205,000	-	(15,000)	9,190,000	45,000
Premium on refunding bonds	338,733	-	(30,794)	307,939	30,794
Discount/issuance costs on refunding bonds	(204,942)	-	18,636	(186,306)	(18,636)
Accrued compensated absences	266,054	3,132,865	(3,122,429)	276,490	-
	<u>\$27,582,997</u>	<u>\$3,132,865</u>	<u>\$ (5,598,587)</u>	<u>\$25,117,275</u>	<u>\$ 1,772,158</u>
Business-type activities					
George W. Kuhn Obligation	<u>\$10,838,409</u>	<u>\$ 397,018</u>	<u>\$ (474,763)</u>	<u>\$10,760,664</u>	<u>\$ 487,743</u>
Component Unit					
Capital Lease	<u>\$ 6,682</u>	<u>\$ -</u>	<u>\$ (2,986)</u>	<u>\$ 3,696</u>	<u>\$ 3,394</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

F. Segment Information – Enterprise Funds

The Water and Sewer Fund, is an individual fund that accounts entirely for the government's water and wastewater activities. This fund is a segment and is reported as a major fund in the fund financial statements; therefore, segment disclosures herein are not required.

G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

Reserves Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes on City financial resource.

Designations Designated fund balances are restrictions imposed by the City on the use of fund balance for specific purposes.

CITY OF FERNDALE, MICHIGAN

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Restricted Net Assets Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of other reserved and designated fund balances is as follows:

	Other Reserved Fund Balance	Designated Fund Balance
Governmental activities		
Accrued compensated absences	\$ -	\$ 276,490
Police in-service training	11,709	-
Court renovation	-	542,135
Local law enforcement grant	-	-
Fire equipment	-	58,850
Veterans' memorial	-	-
Cable TV equipment	-	100,000
Technology equipment	-	100,000
Cable TV advance	-	34,419
Seniors' memorial	-	11,215
	<u>\$ 11,709</u>	<u>\$1,123,109</u>

4. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries and illnesses of employees; and natural disasters. The City maintains an Internal Service Fund to account for and finance its risks of loss for workers' compensation claims. Workers' compensation is provided through purchased commercial insurance. For workers' compensation claims, the policy covers the City's claims up to \$350,000 per occurrence. The City is self-insured for the following risks up to the maximum amount per claim as follows: general liability - \$75,000 and property - \$11,000. The City is insured for those automobile claims that consist of employee injuries and City vehicle damage. There have been no significant reductions in insurance coverage from the prior year. The City participates in the Michigan Municipal Risk Management Authority (MMRMA), a self-insured public-entity risk pool organized under the laws of the State of Michigan to provide self-insurance protection against loss and risk management services to Michigan cities, counties, townships and special purpose governments. The City covers the first \$75,000, and the risk pool covers the next

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

\$925,000. Excess commercial insurance is provided through the pool up to an additional \$9,000,000. Should actual losses among participants be greater than anticipated, the City will be assessed its pro rata share of that deficiency. Conversely, if the actual losses are less than anticipated, there will be a reduction in the City's future contribution to the pool. Settled claims have not exceeded this commercial coverage in any of the past three years.

B. Property Taxes

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest if paid in full by July 31st or if elected by the taxpayer, paid using an eight monthly installment method from July through February. As of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Oakland County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy, including industrial facilities was \$561,954,640. The government's general operating tax rate for fiscal 2005 - 2006 was 14.7648 mills with an additional 2.2145 mills for refuse collection, 6.2000 mills for City debt, .9747 mills for the library and 2.2145 mills for sanitation.

Property taxes for the DDA (Downtown Development Authority) are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

C. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

D. Employer Benefits

Ferndale Employees Retirement System

Plan Description

The Ferndale Employees Retirement System (FERS) is a single-employer defined benefit pension plan administered by the City that covers all full-time municipal employees. Effective July 1, 1996, FERS was closed to new hires and existing members were permitted to transfer to the new Defined Contribution Plan. FERS provides retirement, disability, and death benefits to plan members. The requirements of the State Constitution and Chapter XIXA of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The Ferndale Employees Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Contributions

There are no active members of the plan for the purposes of employee contributions. (See the amendment to the Plan below.) The City is not required to make a contribution. Per Chapter XIXA of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FERS are financed through investment earnings.

The following Plan provisions have been reflected for the first time in the June 30, 2005 valuation:

- Providing Medicare Part B reimbursement to active employees hired prior to July 1, 1991.
- Providing disability benefits to all active General employees of the City of Ferndale. (Thus active plan member in the valuation for purposes of disability are sixty-two, and for purposes of pension benefits is zero – closed plan.)

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Membership of the FERS consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	84
Terminated plan members entitled to but not yet receiving benefits	3
Active plan members	<u>62</u>
Total	<u>149</u>

Annual Pension Cost

For the year ended June 30, 2006, the City had no annual pension cost or required or actual contributions.

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2003	\$ -	100%	\$ -
June 30, 2005	-	100%	-
June 30, 2006	-	100%	-

Ferndale Policeman and Fireman Retirement System

Plan Description

The Ferndale Policeman and Fireman Retirement System (FPFRS) is a single-employer defined benefit pension plan administered by Comerica Bank Corporation that covers all full-time municipal police and firemen. Effective July 1, 1996, the FPFRS provides retirement, disability and death benefits to plan members. The requirements of the State Constitution and Chapter XIXB of the City Charter assigns the authority to establish and amend benefit provisions of the plan to the Board of Trustees. A separate financial statement of the Plan has not been issued.

Summary of Significant Accounting Policies

The Ferndale Policeman and Fireman Retirement System financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Contributions

Plan members are required to contribute between 1.6% and 5.35% of their annual covered salary. The City was not required to make a contribution for the year ended June 30, 2006. Per Chapter XIXB of the City Charter, contribution requirements of the plan members and the City are established and may be amended by the Board of Trustees. Administrative costs of FPFERS are financed through investment earnings.

Membership of the FPFERS consisted of the following at June 30, 2005, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	94
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members *	<u>40</u>
Total	<u>135</u>

- * Does not include 37 DC plan participants eligible for Disability benefits which were included as liabilities beginning with the June 30, 2005 valuation.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

Annual Pension Cost

For the year ended June 30, 2006, the City's annual pension cost of \$-0- was equal to the City's required and actual contributions.

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ -	100%	\$ -
June 30, 2005	-	100%	-
June 30, 2006	-	100%	-
		<u>FERS</u>	<u>FPFRS</u>
Valuation Date		June 30, 2005	June 30, 2005
Actuarial Cost Method		Aggregate Level dollar	Entry-Age
Amortization		open	Level percent open
Remaining Amortization Period		10 years	10 years
Assets Valuation Method			
Smoothed Market		4 years	4 years
Actuarial Assumptions:			
Investment Rate of Return		7.5%	7.5%
Additional Projected Salary			
Increase		4.5 - 8.9%	4.5 - 7.5%
Includes inflation at		4.5%	4.5%
Cost of Living Adjustment		None	None

City Defined Contribution Pension Plan

The City of Ferndale Defined Contribution Pension Plan is held in trust and covers approximately 135 employees of the City. The plan is available to employees upon their first day of employment and benefits are fully vested upon the fifth year of service. The third party administrator for this plan is I.C.M.A. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The defined contribution pension cost to the City for the fiscal year ending June 30, 2006 was \$554,289. The defined contribution pension cost to the employees was \$179,049. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

are used to reduce City contributions. Assets of the plan are valued at \$16,132,143 of which \$381,788 were loans to members.

The City's contribution rate structure is as follows:

	<u>Police</u>	<u>City and Admin hire prior to 7/16/96</u>	<u>City hire subsequent to 7/16/96</u>	<u>Admin hire subsequent to 7/16/96</u>	<u>City Manager</u>
City Contribution	9%	6%	5%	5%	6%
Employee Contribution	0%	0%	0%	0%	0%
or					
City Contribution	12%	9%	5%	7%	10%
Employee Contribution	3%	3%	3%	3%	3%

43rd District Court Profit Sharing Pension Plan

The 43rd District Court Profit Sharing Pension Plan is held in trust and covers 18 employees (11 current and 7 former) of the District Court. The plan is available to employees upon their first day of employment and benefits are fully vested upon the seventh year of service. The third party administrator for this plan is Watkins, Ross & Company. In a profit sharing pension plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The profit sharing pension cost to the 43rd District Court for the fiscal year ending June 30, 2006 was \$80,561. The defined contribution pension cost to the employees was \$0. Contributions to the plan are recognized when due and payable. Plan provisions and contribution rates are established and may be amended for union employees by contract and for non-union employees by resolution of the City Council. Unvested benefits forfeited by employees who leave employment early are used to reduce District Court contributions. Assets of the plan are valued at \$1,520,752.

Retiree Health Care Plan

The City of Ferndale, Michigan also sponsors a retiree health care plan (the "Plan"). The Plan is a single employer defined benefit public retiree health care plan established effective May 29, 2001. The purpose of the Plan is to provide former full-time retired employees and/or spouses with health care coverage during retirement. Benefits under the Plan are administered under a third party agreement with Blue Cross Blue Shield of Michigan. The Plan is maintained as a pension trust fund in the City of Ferndale financial statements. The Mayor and City Council have the authority to establish and amend benefit provisions.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The Plan is a non-contributory defined benefit plan that covers substantially all employees of the City as defined above. At June 30, 2002, the date of the latest actuarial valuation, participants in the Plan consisted of:

Retirees and beneficiaries receiving benefits	278
Active employees	<u>156</u>
Total	<u>434</u>

The employer contributes on a pay-as-you-go basis. Contributions to the Plan were \$534,831 for the fiscal year ended June 30, 2006.

The benefit obligation represents the actuarial present value of those estimated future benefits that are attributed to employee service rendered to June 30, 2002, the date of the most recent actuarial valuation. Postretirement benefits include future benefits expected to be paid to or for (1) currently retired or terminated employees and spouses and (2) active employees and their beneficiaries after retirement from service. Prior to an active employee's full eligibility date, the postretirement benefit obligation is the portion of the expected postretirement benefit obligation that is attributed to that employee's service rendered to the valuation date.

The actuarial present value of the expected postretirement benefit obligation is determined by an actuary and is the amount that results from applying actuarial assumptions to historical insurance premium-cost data to estimate future annual premium costs per participant and to adjust such estimates for the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as those for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment.

The Plan's unfunded accrued liability was determined as part of an actuarial valuation of the Plan as of June 30, 2002. Significant actuarial assumptions used in determining the Plan's unfunded accrued liability included (a) a rate of return on the investment (net of investment expense) of 7.5% per year compounded annually, (b) projected salary increases of 4.5% per year, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.4% per year, depending on age, attributable to seniority/merit, (d) future life expectancy, based on age and sex, (e) rate of retirement, (f) rate of separation from active membership, (g) marital status, and (h) health care cost increases of 5.50% per year. The Plan assets consist of cash equivalents in short-term investments.

CITY OF FERNDALE, MICHIGAN

NOTES TO FINANCIAL STATEMENTS

The Plan's unfunded accrued liability, which was determined by an actuary, is as follows at June 30, 2002:

Retirees and beneficiaries currently receiving benefits	\$18,757,425
Terminated employees not yet receiving benefits	251,643
Current employees	<u>6,292,264</u>
Total	25,301,332
Value of plan assets	<u>1,476,128</u>
Unfunded Accrued Liability	<u>\$23,825,204</u>

The foregoing assumptions are based on the presumption that the Plan will continue. Were the Plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of the postretirement accrued liability.

E. Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Authority"), which consists of 12 municipalities in Oakland County and provides refuse disposal services for the benefit of member municipalities. The City appoints one member of the joint venture's governing board, which approves the annual budget. The participating communities provide funding for its operations. During the year ended June 30, 2006, (the most recent data available,) the Authority reported a reduction in net assets in the amount of \$769,224 resulting in ending net assets in the amount of \$5,522,441. During the year ended June 30, 2006, the City expended \$530,288 in payments made to the Authority. Complete financial statements for the Southeastern Oakland Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, Michigan 48073.

* * * * *

***REQUIRED SUPPLEMENTARY
INFORMATION***

CITY OF FERNDAL, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - Ferndale Employees Retirement System

Trend Information

Schedule of Funding Progress						
Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded (AAL) (UAAL) (b/a)	Funded Ratio % (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a) / c)
2001	\$ 19,416,086	\$ 11,772,304	\$ (7,643,782)	164.9%	\$ 135,998	-%
2002	18,944,647	10,817,132	(8,127,515)	175.1	96,460	-
2003	18,273,195	10,451,898	(7,821,297)	174.8	46,329	-
2004	18,202,445	12,582,349	(5,620,096)	144.7	2,750,539	-
2005	18,066,625	12,828,481	(5,238,144)	140.8	2,767,899	-

Schedule of Employer Contributions				
Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contributions
2002	\$ -	\$ -	\$ -	100%
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100

CITY OF FERNDAL, MICHIGAN

Required Supplementary Information (Unaudited)

Defined Benefit Pension Trust - Ferndale Policeman and Fireman Retirement System

Trend Information

Schedule of Funding Progress

Actuarial Valuation Date June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Attained Age# (b)	(Overfunded) Unfunded AAL (UAAL) (b - a)	Funded Ratio % (a / b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a) / c)
2001	\$ 39,246,828	\$ 32,164,933	\$ (7,081,895)	122.0	% \$ 2,620,382	% (270)
2002	38,371,312	31,242,171	(7,129,141)	122.8	2,544,785	(280)
2003	36,737,847	31,315,210	(5,422,637)	117.3	2,616,156	(207)
2004	36,862,319	32,860,203	(4,002,116)	112.2	2,727,170	(147)
2005	37,456,032	34,311,824	(3,153,208)	109.2	2,880,620	(109)

Schedule of Employer Contributions

Fiscal Year Ended June 30	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based on Projected Payroll	Actual Annual Contributions	Percent of Required Contribution
2002	- % \$	- \$	-	100 %
2003	-	-	-	100
2004	-	-	-	100
2005	-	-	-	100
2006	-	-	-	100

***COMBINING AND INDIVIDUAL FUND
FINANCIAL STATEMENTS AND SCHEDULES***

CITY OF FERNDALE, MICHIGAN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue						Total Nonmajor Governmental Funds
	Local Street	Drug Forfeiture	Community Development Block Grant	Library	Public Improvement	SMART Taxi Subsidy	
Assets							
Cash and cash equivalents	\$ 50,373	\$ 194,765	\$ 37,150	\$ 152,161	\$ 432,736	\$ 27,846	\$ 895,031
Receivables							
Accounts receivable	-	9,625	-	-	31,000	-	40,625
Taxes-delinquent	-	-	-	4,028	-	-	4,028
Less: allowance for doubtful accounts	-	-	-	(2,302)	-	-	(2,302)
Due from other governments	75,920	-	39,639	42,591	-	11,744	169,894
Total assets	\$ 126,293	\$ 204,390	\$ 76,789	\$ 196,478	\$ 463,736	\$ 39,590	\$ 1,107,276
Liabilities							
Accounts payable	\$ 111,589	\$ -	\$ 5,497	\$ 8,592	\$ 23,205	\$ -	\$ 148,883
Accrued liabilities	15,078	-	-	7,756	-	2,545	25,379
Deferred revenue	-	-	-	1,726	-	-	1,726
Total liabilities	126,667	-	5,497	18,074	23,205	2,545	175,988
Fund balance							
Unreserved, undesignated (deficit)	(374)	204,390	71,292	178,404	440,531	37,045	931,288
Total liabilities and fund balance	\$ 126,293	\$ 204,390	\$ 76,789	\$ 196,478	\$ 463,736	\$ 39,590	\$ 1,107,276

CITY OF FERNDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	Special Revenue						Total Nonmajor Governmental Funds
	Local Street	Drug Forfeiture	Community Development Block Grant	Library	Public Improvement	SMART Taxi Subsidy	
Revenues							
Property taxes	\$ -	\$ -	\$ -	\$ 547,560	\$ -	\$ -	\$ 547,560
Intergovernmental							
Federal	-	73,391	105,066	-	-	-	178,457
State	347,748	-	-	15,967	-	68,161	431,876
Local	-	20,250	-	-	-	-	20,250
Charges for services	-	-	-	-	-	6,612	6,612
Fines and forfeitures	-	65,660	-	44,031	-	-	109,691
Investment earnings	-	8,760	1,554	4,843	23,467	1,018	39,642
Other	-	-	-	34,356	10,040	-	44,396
Total revenues	347,748	168,061	106,620	646,757	33,507	75,791	1,378,484
Expenditures							
Current							
General government	-	-	-	-	-	71,179	71,179
Public safety	-	9,291	-	-	-	-	9,291
Highways and streets	685,932	-	-	-	-	-	685,932
Community and economic development	-	-	25,363	-	36,982	-	62,345
Recreation and culture	-	-	-	533,092	-	-	533,092
Debt service							
Principal	-	-	-	-	89,000	-	89,000
Interest and fees	-	-	-	-	41,992	-	41,992
Capital outlay	-	62,357	-	46,374	273,625	-	382,356
Total expenditures	685,932	71,648	25,363	579,466	441,599	71,179	1,875,187
Revenues over (under) expenditures	(338,184)	96,413	81,257	67,291	(408,092)	4,612	(496,703)
Other financing sources (uses)							
Transfers in	225,000	-	-	-	190,000	-	415,000
Transfers out	-	(84,000)	(81,951)	-	-	-	(165,951)
Proceeds from the sale of capital assets	-	-	-	925	-	-	925
Total other financing sources (uses)	225,000	(84,000)	(81,951)	925	190,000	-	249,974
Net change in fund balances	(113,184)	12,413	(694)	68,216	(218,092)	4,612	(246,729)
Fund balances, beginning of year	112,810	191,977	71,986	110,188	658,623	32,433	1,178,017
Fund balances, end of year (deficit)	\$ (374)	\$ 204,390	\$ 71,292	\$ 178,404	\$ 440,531	\$ 37,045	\$ 931,288

CITY OF FERNDAL, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

LOCAL STREETS

Year Ended June 30, 2006

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
State grants and reimbursements	\$357,220	\$ 328,642	\$ 347,748	\$ 19,106
Investment earnings	2,600	2,600	-	(2,600)
Total revenues	359,820	331,242	347,748	16,506
Expenditures				
Construction	-	-	85,383	85,383
Routine maintenance	524,909	534,111	559,706	25,595
Winter maintenance	51,000	51,000	29,804	(21,196)
Traffic service	11,000	11,000	11,039	39
Total expenditures	586,909	596,111	685,932	89,821
Revenues under expenditures	(227,089)	(264,869)	(338,184)	(73,315)
Other financing sources				
Transfers in	225,000	225,000	225,000	-
Net change in fund balances	(2,089)	(39,869)	(113,184)	(73,315)
Fund balance, beginning of year	112,810	112,810	112,810	-
Fund balance, end of year (deficit)	\$110,721	\$ 72,941	\$ (374)	\$ (73,315)

CITY OF FERNDALE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

DRUG FORFEITURE

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual</u>
	<u>Original</u>	<u>Final</u>		<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ -	\$ -	\$ 73,391	\$ 73,391
Local	-	-	20,250	20,250
Fines and forfeitures	80,000	125,000	65,660	(59,340)
Investment earnings	1,700	1,700	8,760	7,060
Total revenues	81,700	126,700	168,061	41,361
Expenditures				
Construction	65,000	70,515	62,357	(8,158)
Operating expenditures	15,500	15,500	9,291	(6,209)
Total expenditures	80,500	86,015	71,648	(14,367)
Revenues over expenditures	1,200	40,685	96,413	55,728
Other financing uses				
Transfers out	(84,000)	(84,000)	(84,000)	-
Net change in fund balances	(82,800)	(43,315)	12,413	55,728
Fund balance, beginning of year	191,977	191,977	191,977	-
Fund balance, end of year (deficit)	\$109,177	\$148,662	\$204,390	\$ 55,728

CITY OF FERNDAL, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT BLOCK GRANT

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Intergovernmental				
Federal	\$ 96,739	\$ 96,739	\$ 105,066	\$ 8,327
Investment earnings	730	730	1,554	824
Total revenues	<u>97,469</u>	<u>97,469</u>	<u>106,620</u>	<u>9,151</u>
Expenditures				
Operating expenditures	<u>27,730</u>	<u>27,730</u>	<u>25,363</u>	<u>(2,367)</u>
Revenues over (under) expenditures	<u>69,739</u>	<u>69,739</u>	<u>81,257</u>	<u>11,518</u>
Other financing sources (uses)				
Transfers out	<u>(69,739)</u>	<u>(69,739)</u>	<u>(81,951)</u>	<u>(12,212)</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>(694)</u>	<u>(694)</u>
Fund balance, beginning of year	<u>71,986</u>	<u>71,986</u>	<u>71,986</u>	<u>-</u>
Fund balance, end of year	<u>\$ 71,986</u>	<u>\$ 71,986</u>	<u>\$ 71,292</u>	<u>\$ (694)</u>

CITY OF FERNDALE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

LIBRARY

Year Ended June 30, 2006

	Budgeted Amounts			Actual
	Original	Final	Actual	Over (Under) Final Budget
Revenues				
Property taxes	\$ 535,489	\$ 546,854	\$ 547,560	\$ 706
Intergovernmental				
State	18,000	18,000	15,967	(2,033)
Fines and forfeitures	38,700	37,500	44,031	6,531
Investment earnings	100	100	4,843	4,743
Other	12,600	33,300	34,356	1,056
Total revenues	604,889	635,754	646,757	11,003
Expenditures				
Personal services	380,105	380,105	372,314	(7,791)
Operating expenditures	170,725	177,850	160,778	(17,072)
Capital outlay	59,244	59,244	46,374	(12,870)
Total expenditures	610,074	617,199	579,466	(37,733)
Revenues over (under) expenditures	(5,185)	18,555	67,291	48,736
Other financing sources (uses)				
Proceeds from the sale of capital assets	600	600	925	325
Net change in fund balances	(4,585)	19,155	68,216	49,061
Fund balance, beginning of year	110,188	110,188	110,188	-
Fund balance, end of year	\$ 105,603	\$ 129,343	\$ 178,404	\$ 49,061

CITY OF FERNDALE, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

PUBLIC IMPROVEMENT

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			<u>Actual</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenues				
Investment earnings	\$ 7,000	\$ 14,000	\$ 23,467	\$ 9,467
Other revenue	10,000	10,000	10,040	40
Total revenues	17,000	24,000	33,507	9,507
Expenditures				
Operating expenditures	90,420	180,100	36,982	(143,118)
Principal	-	85,000	89,000	4,000
Interest	126,587	41,587	41,992	405
Capital outlay	288,000	200,000	273,625	73,625
Total expenditures	505,007	506,687	441,599	(65,088)
Revenues over (under) expenditures	(488,007)	(482,687)	(408,092)	74,595
Other financing sources (uses)				
Transfers in	190,000	190,000	190,000	-
Net change in fund balances	(298,007)	(292,687)	(218,092)	74,595
Fund balance, beginning of year	658,623	658,623	658,623	-
Fund balance, end of year	\$360,616	\$365,936	\$440,531	\$ 74,595

CITY OF FERNDAL, MICHIGAN
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL

SMART TAXI SUBSIDY

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>			Actual
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u> <u>Final Budget</u>
Revenues				
Intergovernmental				
State	\$65,380	\$65,380	\$68,161	\$ 2,781
Charges for services	9,048	7,000	6,612	(388)
Investment earnings	400	400	1,018	618
Total revenues	74,828	72,780	75,791	3,011
Expenditures				
Personal services	55,078	55,078	57,622	2,544
Operating expenditures	14,110	13,375	13,557	182
Capital outlay	12,600	12,600	-	(12,600)
Total expenditures	81,788	81,053	71,179	(9,874)
Net change in fund balances	(6,960)	(8,273)	4,612	12,885
Fund balance, beginning of year	32,433	32,433	32,433	-
Fund balance, end of year	\$25,473	\$24,160	\$37,045	\$ 12,885

CITY OF FERNDALE, MICHIGAN
COMBINING STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS

June 30, 2006

	Vehicle and Equipment Maintenance	Worker's Compensation	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 507,779	\$ 480,491	\$ 988,270
Accounts receivable	16,909	-	16,909
Inventory	160,651	-	160,651
Prepaid expenses	-	20,000	20,000
Total current assets	685,339	500,491	1,185,830
Noncurrent assets			
Capital assets	4,869,552	-	4,869,552
Less accumulated depreciation	(3,678,405)	-	(3,678,405)
Total noncurrent assets	1,191,147	-	1,191,147
Total assets	1,876,486	500,491	2,376,977
Liabilities			
Current liabilities			
Accounts payable	36,600	52,608	89,208
Accrued liabilities	8,762	-	8,762
Total current liabilities	45,362	52,608	97,970
Net assets			
Investment in capital assets	1,191,147	-	1,191,147
Unrestricted	639,977	447,883	1,087,860
Total net assets	\$ 1,831,124	\$ 447,883	\$ 2,279,007

CITY OF FERNDALE, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS

Year Ended June 30, 2006

	Vehicle and Equipment Maintenance	Worker's Compensation	Total
Operating revenues			
Charges for services	\$ 1,163,107	\$ 111,687	\$ 1,274,794
Miscellaneous fees	10,231	-	10,231
Total operating revenues	1,173,338	111,687	1,285,025
Operating expenses			
Personal services	185,876	-	185,876
General and administrative	600,780	36,144	636,924
Depreciation	388,496	-	388,496
Benefit and medical payments	-	49,660	49,660
Total operating expenses	1,175,152	85,804	1,260,956
Operating income (loss)	(1,814)	25,883	24,069
Non-operating revenues			
Investment earnings	14,198	16,195	30,393
Gain on sale of capital assets	8,013	-	8,013
Total non-operating revenues	22,211	16,195	38,406
Change in net assets	20,397	42,078	62,475
Net assets, beginning of year	1,810,727	405,805	2,216,532
Net assets, end of year	\$ 1,831,124	\$ 447,883	\$ 2,279,007

CITY OF FERNDALE, MICHIGAN

STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS

Year Ended June 30, 2006

	Vehicle and Equipment Maintenance	Worker's Compensation	Total
Cash flows from operating activities			
Cash received from interfund services	\$ 1,169,698	\$ 111,687	\$1,281,385
Cash payments to employees	(181,365)	-	(181,365)
Cash payments to suppliers for goods and services	(640,605)	(219,830)	(860,435)
Net cash provided by (used in) operating activities	347,728	(108,143)	239,585
Cash flows from investing activities			
Investment income	14,198	16,195	30,393
Cash flows from capital and related financing activities			
Purchase of capital assets	(293,936)	-	(293,936)
Proceeds from sale of capital assets	8,013	-	8,013
Net cash used in capital and realated financing activities	(285,923)	-	(285,923)
Net increase (decrease) in cash and cash equivalents	76,003	(91,948)	(15,945)
Cash and cash equivalents, beginning of year	431,776	572,439	1,004,215
Cash and cash equivalents, end of year	\$ 507,779	\$ 480,491	\$ 988,270

Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities

Cash flows from operating activities			
Operating income (loss)	\$ (1,814)	\$ 25,883	\$ 24,069
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	388,496	-	388,496
Changes in assets and liabilities			
Accounts receivable	(3,640)	-	(3,640)
Inventories	(29,830)	-	(29,830)
Prepaid items	-	-	-
Accounts payable	(9,995)	(134,026)	(144,021)
Accrued liabilities	4,513	-	4,513
Net cash provided by (used in) operating activities	\$ 347,730	\$ (108,143)	\$ 239,587

CITY OF FERNDALE, MICHIGAN

COMBINING STATEMENT OF NET ASSETS PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

Year Ended June 30, 2006

	Employees Retirement System Fund	Policemen and Firemen Retirement System Fund	Post- Retirement Healthcare Fund	Total
ASSETS				
Cash and cash equivalents	\$ 231,327	\$ 650,777	\$ 3,882,806	\$ 4,764,910
Accrued interest receivable	83,402	177,279	13,591	274,272
Investments				
U.S. Government obligations	2,751,638	6,263,856	-	9,015,494
Common stock	9,228,042	18,349,807	-	27,577,849
Corporate bonds	6,684,051	14,150,962	-	20,835,013
Total investments	18,663,731	38,764,625	-	57,428,356
Total assets	18,978,460	39,592,681	3,896,397	62,467,538
LIABILITIES				
Liabilities				
Accounts payable	7,500	10,850	-	18,350
NET ASSETS				
Held in trust for pension benefits and other purposes	\$ 18,970,960	\$ 39,581,831	\$ 3,896,397	\$ 62,449,188

CITY OF FERNDALE, MICHIGAN

COMBINING STATEMENT OF CHANGES IN NET ASSETS PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS

YEAR ENDED

	Employees Retirement System Fund	Policemen and Firemen Retirement System Fund	Post- Retirement Healthcare Fund	Total
Additions				
Contributions				
Employer contributions	\$ -	\$ -	\$ 534,831	\$ 534,831
Plan member contributions	-	144,698	-	144,698
Total contributions	-	144,698	534,831	679,529
Investment income				
Net appreciation in fair value	756,031	1,544,733	-	2,300,764
Interest	350,254	736,221	128,397	1,214,872
Dividends	405,373	803,097	-	1,208,470
Total investment income	1,511,658	3,084,051	128,397	4,724,106
Less investment expense	(100,623)	(163,250)	-	(263,873)
Net investment income	1,411,035	2,920,801	128,397	4,460,233
Total additions	1,411,035	3,065,499	663,228	5,139,762
Deductions				
Benefits	1,171,237	2,196,659	-	3,367,896
Administrative expenses	14,984	25,904	2,502	43,390
Total deductions	1,186,221	2,222,563	2,502	3,411,286
Net increase in plan net assets	224,814	842,936	660,726	1,728,476
Net assets held in trust for pension benefits - beginning of year	18,746,146	38,738,895	3,235,671	60,720,712
Net assets held in trust for pension benefits - end of year	\$ 18,970,960	\$ 39,581,831	\$ 3,896,397	\$ 62,449,188

CITY OF FERNDALE, MICHIGAN

COMBINING BALANCE SHEET AGENCY FUNDS

June 30, 2006

	43rd District Court	Other	Total
ASSETS			
Cash and cash equivalents	\$ 164,715	\$ 81,095	\$ 245,810
Investments			
Common stock	-	21,019	21,019
Corporate bonds	-	8,848	8,848
Total investments	-	29,867	29,867
Total assets	\$ 164,715	\$ 110,962	\$ 275,677
LIABILITIES			
Accounts payable	\$ -	\$ 481	\$ 481
Other liabilities	164,715	110,481	275,196
Total liabilities	\$ 164,715	\$ 110,962	\$ 275,677

CITY OF FERNDALE, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash	\$ -	\$ -	\$ -
Taxes receivable	59,788	-	59,788
Less allowance for uncollectables	(47,203)	-	(47,203)
Due from primary government	35,679	4,678	40,357
Other receivables			
Capital assets			
Equipment	-	68,015	68,015
Vehicles	-	37,103	37,103
Infrastructure	-	1,390,789	1,390,789
Less: accumulated depreciation	-	(739,909)	(739,909)
Total assets	\$ 48,264	760,676	808,940
Liabilities			
Accounts payable	\$ 53,435	-	53,435
Accrued liabilities	3,038	280	3,318
Deferred revenue	12,586	(12,586)	-
Noncurrent liabilities			
Due within one year	-	3,394	3,394
Due in more than one year	-	302	302
Total liabilities	69,059	(8,610)	60,449
Fund balance/net assets			
Undesignated (deficit)	(20,795)	20,795	-
Total liabilities and fund balance	\$ 48,264		
Net assets			
Invested in capital assets, net of related debt		\$ 752,302	\$ 752,302
Unrestricted (deficit)		(3,811)	(3,811)
Total net assets		\$ 748,491	\$ 748,491

CITY OF FERNDALE, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET TO STATEMENT OF ACTIVITIES

June 30, 2006

Fund balance - Downtown Development Authority	\$ (20,795)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add capital assets:

Infrastructure	1,390,789
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Equipment	68,015
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Vehicles	37,103
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Deduct: accumulated depreciation	(739,909)
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Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred revenues	12,586
------------------------	--------

Certain liabilities, such as obligations under capital leases, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: obligations under capital leases	(3,696)
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Deduct: accrued interest on capital lease	(280)
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An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service fund are included under governmental activities in the primary governments statement of net assets.

Add: net assets of governmental activities accounted for in the internal service fund	<u>4,678</u>
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Net assets of component unit	<u><u>\$ 748,491</u></u>
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CITY OF FERNDALE, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

Year Ended June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 401,057	\$ 1,051	\$ 402,108
Intergovernmental:			
State grants	45,507	-	45,507
Federal grants	155,408	-	155,408
Contributions	32,347	-	32,347
Total revenues	<u>634,319</u>	<u>1,051</u>	<u>635,370</u>
Expenditures/expenses			
Personal services	125,580	-	125,580
Operating services	364,370	(256)	364,114
Capital outlay	199,074	(199,074)	-
Interest expense	-	(3,379)	(3,379)
Depreciation expense	-	104,720	104,720
Total expenditures/expenses	<u>689,024</u>	<u>(97,989)</u>	<u>591,035</u>
Excess (deficiency) of revenues over (under) expenditures/change in net assets	(54,705)	99,040	44,335
Beginning fund balance/net assets	<u>33,910</u>	<u>670,246</u>	<u>704,156</u>
Ending fund balance/net assets (deficit)	<u><u>\$ (20,795)</u></u>	<u><u>\$ 769,286</u></u>	<u><u>\$ 748,491</u></u>

CITY OF FERNDALE, MICHIGAN

DOWNTOWN DEVELOPMENT AUTHORITY RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - component unit	\$ (54,705)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: purchases of capital assets	199,074
Deduct: depreciation expense	(104,720)

An internal service fund is used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) of the fund attributable to those funds is reported with governmental activities.

Add: net operating income from component unit activities in the internal service fund	256
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in accrued interest	3,379
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Add: net difference in deferred revenues	<u>1,051</u>
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Change in net assets of governmental activities	<u>\$ 44,335</u>
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CITY OF FERNDAL, MICHIGAN
BROWNFIELD REDEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS AND
GOVERNMENTAL FUND BALANCE SHEET

June 30, 2006

	Governmental Fund	Adjustments	Statement of Net Assets
Assets			
Cash	\$ 255,792	\$ -	\$ 255,792
Accounts receivable	125,901	-	125,901
Total assets	\$ 381,693	-	381,693
Liabilities			
Accounts payable	363,508	-	363,508
Fund balance/net assets			
Undesignated	18,185	(18,185)	-
Total liabilities and fund balance	\$ 381,693		
Net assets			
Unrestricted		<u>\$ 18,185</u>	<u>\$ 18,185</u>

CITY OF FERNDALE, MICHIGAN
BROWNFIELD REDEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES AND
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE

Year Ended June 30, 2006

	<u>Governmental Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
Revenues			
Property taxes	\$ 119,775	\$ -	\$ 119,775
Charges for services	2,000	-	2,000
Investment earnings	3,733	-	3,733
Total revenues	125,508	-	125,508
Expenditures/expenses			
Operating expenditures/expenses	110,749	-	110,749
Net change in fund balances	14,759	-	14,759
Beginning fund balance/net assets	3,426	-	3,426
Ending fund balance/net assets	\$ 18,185	\$ -	\$ 18,185

***REPORT ON INTERNAL CONTROL
AND COMPLIANCE***



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

October 27, 2006

To the Honorable Mayor and Council
City of New Ferndale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Ferndale, Michigan* as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the *City of Ferndale, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the *City of Ferndale, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Mayor and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Rehman Robson



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 27th, 2006

To the Honorable Mayor and City Council
City of Ferndale, Michigan

In planning and performing our audit of the financial statements of the *City of Ferndale, Michigan*, for the year ended June 30, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and/or operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated October 27th, 2006, on the financial statements of the *City of Ferndale, Michigan*.

The accompanying comments and recommendations are intended solely for the information and use of the Mayor and City Council, Management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the *City of Ferndale, Michigan* for their assistance and cooperation in completing the audit.

Rehmann Robson

Memorandum

INTERNAL CONTROLS

1) HANDLING OF CASH

During our audit we noted that cash received from the Department of Public Works (DPW) was not being deposited regularly. We also noted that employees were cashing personal checks with the un-deposited money from the safe.

This practice exposes the City to undue risk related to misappropriation or loss of cash.

Recommendation

We recommend that the City establish a policy requiring timely deposits of cash stored in the safe. In the event that cash needs to be taken from the safe that the nature of the voucher or withdrawal is for legitimate City business and not for personal withdrawals by employees.

2) ESTIMATES OF DELINQUENT TAXES

The Michigan Tax Tribunal (MTT) is an administrative tax court. The Tribunal has authority over assessment disputes relating to property taxes. During our audit we noted that proper analysis and an allowance for doubtful accounts were not established for these disputes.

This practice exposes the City to unforeseeable write-off's of delinquent tax receivables which will ultimately affect the City's budget.

Recommendation

We recommend that the City establish a policy which will require timely analysis of Michigan Tax Tribunal cases. The analysis should include, but is not limited to, and understanding on the City's behalf as to what outstanding MTT cases will turnout favorable or unfavorable. We believe this practice will help the City be more prepared and budgeted for MTT decisions.